

1990 AGRICULTURAL OUTLOOK

INTERNATIONAL TRADE POLICY AND MARKETING

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AMERICAN OVERSIGHT

A Discussion Guide

COLLEGE OF AGRICULTURE

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SLIDE 1: INTERNATIONAL TRADE, POLICY AND MARKETING

1. This is an introductory outline slide of the two principal discussion topics. First, trends in U.S. agricultural trade are discussed with focus on total exports, the division of exports among commodity groups, and an identification of major importing countries and regions.
2. The second general topic concerns factors that are affecting trade currently, and will have a significant impact in determining the amount, type and destination of future U.S. agricultural trade. Three items affecting current and future trade will be discussed in some detail. They are, (1) international debt, (2) the current GATT negotiations, and (3) the current economic and political changes sweeping the centrally planned economies. Two other topics; economic growth, principally in low and middle income countries; and EEC 1992 integration will be covered as part of the two general themes.

SLIDE 2: TOTAL U.S. AGRICULTURAL EXPORTS 1975/76 - 1988/89

1. Over the past fifteen years exports have been on a roller coaster ride reversing direction every five years. A sharp upturn in the late 1970s was followed by an equally sharp down turn from 1980 to 1985. The past three years have witnessed a recovery almost to 1980 levels and probably put us back on a longer run trend line.
2. Economic forces have driven these sharp swings in export values. In the late 1970s, petro dollars, low interest rates, and economic growth fueled an unprecedented demand for U.S. farm exports at high prices. In the early 1980s, world recession, high interest rates, mounting debt, and rising world food production contributed to lower world prices and the decline in U.S. export value. The recovery since 1985 has not been uniform across all countries and regions, as some combination of high debt, low growth rates, or increased agricultural production in some regions have limited export potential while high growth rates in other regions have led to sharply higher imports of U.S. farm products.
3. The next set of slides are focused on the latest three year period of recovery and include an identification of the regions where growth has occurred and of the products which have contributed most to the growth. This is followed by a longer time period analysis of the same trends.

SLIDE 3: DEVELOPING COUNTRIES ARE NEW GROWTH MARKETS

1. On this slide, U.S. markets are divided into three main country groups; developed countries, developing countries and centrally planned countries. Centrally planned countries are limited to communist centrally planned countries for this analysis. A fourth category, developed countries less Japan, is provided for comparison as well. This is necessary, because, for a number of policy reasons, food consumption behavior in Japan is more similar to a middle income developing country than to a developed country. Since Japan is our most important market it tends to dominate any group where it is included.
2. Japan's domination of the developed country group is obvious. When Japan is included with this group it is the most important recipient group and participated in the past three year recovery. When Japan is excluded, developed countries are only half as important and actually decreased their imports of U.S farm products during the recovery period.
3. Developing countries are a significant and growing market and along with Japan and centrally planned countries are primarily responsible for the recovery in U.S. farm exports.

SLIDE 4: MAJOR U.S. EXPORT MARKETS

1. On this slide, markets are organized by geographical region with Japan and the USSR listed as separate areas.
2. Asia, other than Japan is composed primarily of middle and low income developing countries. The size and growth of this market stands in sharp contrast to the much smaller and slower growing markets in the developing countries of Latin America and Africa. This difference is in part from the high international debts and associated slow economic growth rates in these latter two areas, a topic to be covered later.
3. Markets in Western and Eastern Europe have not grown during this recovery period.

SLIDE 5: VALUE OF FARM EXPORTS IN FISCAL 1987, 1988, AND 1989

1. Another way to look at the recovery period is to identify which commodities were most important. Clearly, exports of grains have increased significantly in the past three years. This results partly from the availability of surplus stocks and partly from the aggressive export enhancement program for wheat.
2. Increases in soybean exports have been constrained by lack of sufficient supply and increased competition, principally from South America. Exports of livestock and products have grown at average levels as have exports of horticultural products.

SLIDE: 6 U.S. AGRICULTURAL EXPORTS BY COMMODITY GROUP, 1975/76 -1988/89

1. In this slide, market share (percent of total exports), for each group is shown. The trends are clear, grains and soybeans and products were the principal export items fifteen years ago. Their share of total exports has declined steadily over the years being replaced by increasing export values of livestock and horticultural products. The changes are especially pronounced in the last five years.

SLIDE: 7 U.S. AGRICULTURAL EXPORTS BY WORLD REGION, 1975/76 - 1988/89

1. While the decline in the Western European market and the rise in the Asian market are more pronounced in recent years, the shift in market shares has been underway for some time. With about equal shares of 30-35 percent in the mid 1970s, Asian markets have grown to absorb almost one-half of all U.S. farm exports in the past year, while Western European markets now account for less than twenty percent. Low debt levels, rapid economic development and a small agricultural base are characteristic of many Asian growth markets. In Europe, mature high income economies with little or no growth in food demand are becoming more than adequately supplied by increasing agricultural productivity in a farm sector with strong subsidy support.
2. Latin America, after a period of rapid market growth during the 1970s has stabilized as a market due primarily to high debt levels and low rates of economic growth.
3. The USSR and Eastern Europe have been a weather driven market fluctuating between five and ten percent of U.S. exports.
4. About one-half of the exports to African countries are subsidized to some extent.

SLIDE: 8 MAJOR U.S. EXPORT MARKETS - 1988/89

1. Within Asia, specifically Eastern Asia, four countries; Japan, South Korea, Taiwan, and China, took one-third of U. S. exports in the past fiscal year. They are the first, third, seventh and eighth ranked markets.

SLIDE: 9 THIRD WORLD DEBT HAS CUT U.S. FARM EXPORTS \$3 BIL. ANNUALLY SINCE 1982.

1. This is the title slide to the section on international debt. While the debt levels are usually well known, the magnitude of their impact on U.S. farm exports is not fully appreciated, nor is the importance of seeking resolution to the debt problems in developing countries adequately recognized.

SLIDE: 10 EXTERNAL DEBT - 1989

1. About forty percent of all the debt in developing countries is in Latin America, including the three largest debtor countries, Brazil, Mexico, and Argentina. Asia has a small debt load in relation to the region's economy. Africa has a fairly large debt burden for a very small economic base. Previous slides have shown the effect of these debt loads on U.S. export markets.

SLIDE: 11 THIRD WORLD DEBT HAS CUT U.S. FARM EXPORTS \$3 BIL. ANNUALLY SINCE 1982.

1. There are several economic reasons why high debt loads restrict a countries ability to import. First, the need to earn and use foreign exchange (dollars) to make interest and principal payments means that a debtor country has to increase exports and limit imports in order to free up foreign exchange. In the case of Latin America, exports have to exceed imports by more than \$60 billion a year just to meet debt payments.
2. The focus on export commodities and the need to use foreign exchange earnings for debt repayment also results in reduced resources available for domestic investment. This in turn slows economic growth which is the principal force behind increased demand for food and thus limits consumption changes and dampens the need to import.

SLIDE: 12 BRADY PLAN - THREE PRONGED EFFORT.

1. The Brady Plan calls for three major initiatives; (1) reduction or write-down of a portion of the existing debt and restructuring of existing debt to longer terms so that debt payments will not be so burdensome to economic growth,

SLIDE: 13 GATT INDUCED CHANGES IN AGRICULTURAL POLICIES

1. The Uruguay round of the GATT negotiations was initiated in September of 1986, and will end in December of 1990. Little progress has been made to date. The early U.S. position for complete decoupling was unsuccessful and led to the breakup of the Montreal meeting in December of 1988. The October 1989 U.S. proposal of 'tariffication' and then a gradual lowering of tariffs over ten years has also met with resistance from the EEC and Japan. While failures at the multi-lateral trade negotiation level have not met with much success, some bi-lateral negotiations have resulted in minor reductions in trade barriers. The U.S. - Canada Free Trade Agreement, and the U.S. Japan agreement on beef and citrus imports to Japan are examples.
2. One reason for the difficulty in multi-lateral negotiations is that major economic blocs are developing in North America, Western Europe and the Pacific Rim. Political pressures within each bloc make it very difficult to bring about reductions in farm support systems even though program costs are important claims on country budgets and may impede a country's competitive position in world markets. Politically, it is easier to use the GATT as leverage for internal change as each country or group of countries has to respond to world trade pressures. Thus, negotiations will likely succeed in areas where internal change is desired and the GATT can become a vehicle for implementing that change. In this scenario, changes will be small and slow in coming.

SLIDE: 14 SOME LIKELY GATT OUTCOMES

1. We will probably see a modest phase-down of agricultural supports and trade barriers. Tweeten has suggested this may be in the 10-25% range as measured by Producer Subsidy Equivalents (PSEs)
2. In anticipation of some of these changes, the U.S. will likely want to retain export subsidies as a bargaining chip, even though we may not have much surplus to subsidize. For example, a possible bargaining situation would have the EEC agree to eliminate export subsidies, (which we want), in turn the U.S. would accept duties on soybeans and corn gluten feed in the EEC market (which they want).
3. The U.S. policies most vulnerable to adjustment under any GATT negotiated agreement to lower support levels would be sugar and dairy policies.

SLIDE: 15 UNCERTAINTIES IN CENTRALLY PLANNED ECONOMIES

1. This is a title slide. The same title will appear on slides 18, 19, and 20 with subheadings as these uncertainties are interpreted. Slides 16 and 17 give a brief explanation of the position of communism relative to capitalism and the economic contradictions that have led to the failure of the communist economic system. The following are introductory comments to the discussion on centrally planned economies.
2. The focus on GATT, EEC economic integration for 1992, and the emergence of western economic blocs is being clouded by the economic collapse and future uncertainties in many centrally planned economies. As these changes unfold, it is possible that major new economic alliances will be forged. This will hold important consequences for trade. The most plausible linkage would be Eastern and Western Europe, though this could extend to include the USSR as well. This could tilt the U.S. more toward the Pacific Rim area for trade alliances; eg. as agricultural trade has already shifted; and/or toward a renewed emphasis on the western Hemisphere including Latin America. To understand better the roots of the current uncertainty in centrally planned economies, a brief explanation of economic systems follows.

SLIDE: 16 ECONOMIC SYSTEMS

1. A simple listing of the basic economic systems involved in the present uncertainty would include feudalism, capitalism, socialism, and communism. In reality, the world is currently organized around two basic systems, capitalism and socialism. Feudalism was the predecessor to socialism in the USSR, while communism is the dream and final step for the USSR and other centrally planned economies. The essential differences between the economic philosophies of the three systems rests in the ownership of means of production and the incentives or rewards for employing these resources. In capitalism the heart of the economic system is private ownership and initiative. For socialism it is state ownership, and for communism it is communal ownership.
2. The significance of the current malaise in centrally planned economies is that socialism, which is the stepping stone to true communism, has failed as a viable economic system. State control and ownership of productive resources and the associated decision making processes are now being turned more toward the capitalist economic model of private ownership and individual initiative. This change will be more easily achieved by some than others. For example, there is a history of private ownership and associated institutions in much of Eastern Europe. Changes there will be less difficult. In the USSR, a feudal economy was replaced with a socialist state. Much more will need to be learned, and the process of economic change will likely be more difficult and protracted for the USSR.

SLIDE: 17 COMMUNIST PHILOSOPHY - EQUALITY

1. The dream of equality - the giving according to abilities and the taking according to needs - has crashed on the reality of human nature, where the pursuit of self-interest results in the giving of as little as possible (laziness) and the taking of as much as possible (greed). Socialism has attempted to harness these traits by a system of watchdogs, heavy decision making bureaucracy, and rigid central planning; with the final result of economic failure. By contrast, capitalism, with a little social organization, has harnessed these human traits into a very productive economic system.

SLIDE: 18 UNCERTAINTIES IN CENTRALLY PLANNED ECONOMIES - RESTRUCTURING OF THE ECONOMIC SYSTEM

1. The restructuring of the socialist economic systems will involve attempts to introduce free market forces. As noted earlier, this will be easiest in Eastern Europe where some tradition of private ownership and past market economies exist. It will be more difficult in The USSR where the socialist economy evolved directly from feudalism, and in some developing countries that have moved directly from colonialism to state directed economies.
2. There will be problems in meeting the short run demands for food and other commodities and services, as well as meeting the associated aspirations for political pluralism.

SLIDE: 19 UNCERTAINTIES IN CENTRALLY PLANNED ECONOMIES - POTENTIAL TRADE OPPORTUNITIES ARE SUBSTANTIAL

1. In the longer run, the trade opportunities are significant as centrally planned economies include one third of the worlds population and are either low or middle income countries. As the change to more efficient economic systems occurs, growth in income will fuel the demand for improved diets and the freer markets will allow this desire to be expressed. This will be very positive for U.S. agricultural exports.

SLIDE: 20 UNCERTAINTIES IN CENTRALLY PLANNED ECONOMIES - SHORT RUN TRADE OPPORTUNITIES ARE FAVORABLE

1. In the short run, political unrest will force the centrally planned economies to attempt to meet demands for improved living standards including more food. For example, unmet meat demand in the USSR is estimated at 30-35%, and the USSR has promised to boost living standards. Barring unforeseen political problems, we can expect the strong export situation to the USSR to continue in the near term. Requests for favored nation status and the possibility of some form of food aid to Eastern Europe and/or the USSR may provide additional export opportunities.
2. China will provide somewhat lower incentives to domestic agriculture, will have less foreign exchange to purchase imports, but within import categories will afford high priority to food.

International Trade, Policy and Marketing

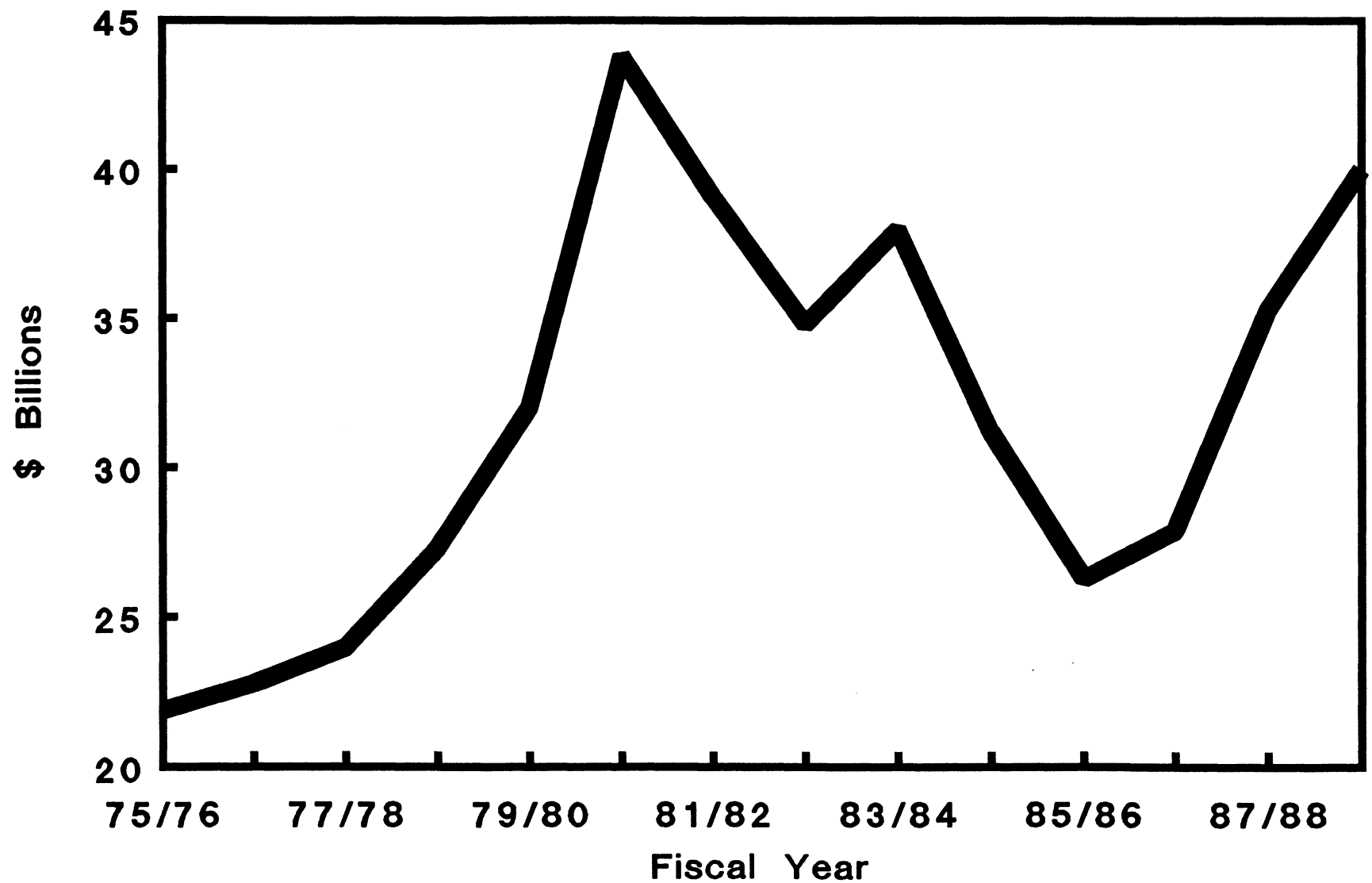
1. Trends in U.S. Agricultural Trade

- Total Exports**
- Commodity Shares**
- Importing Countries, Regions**

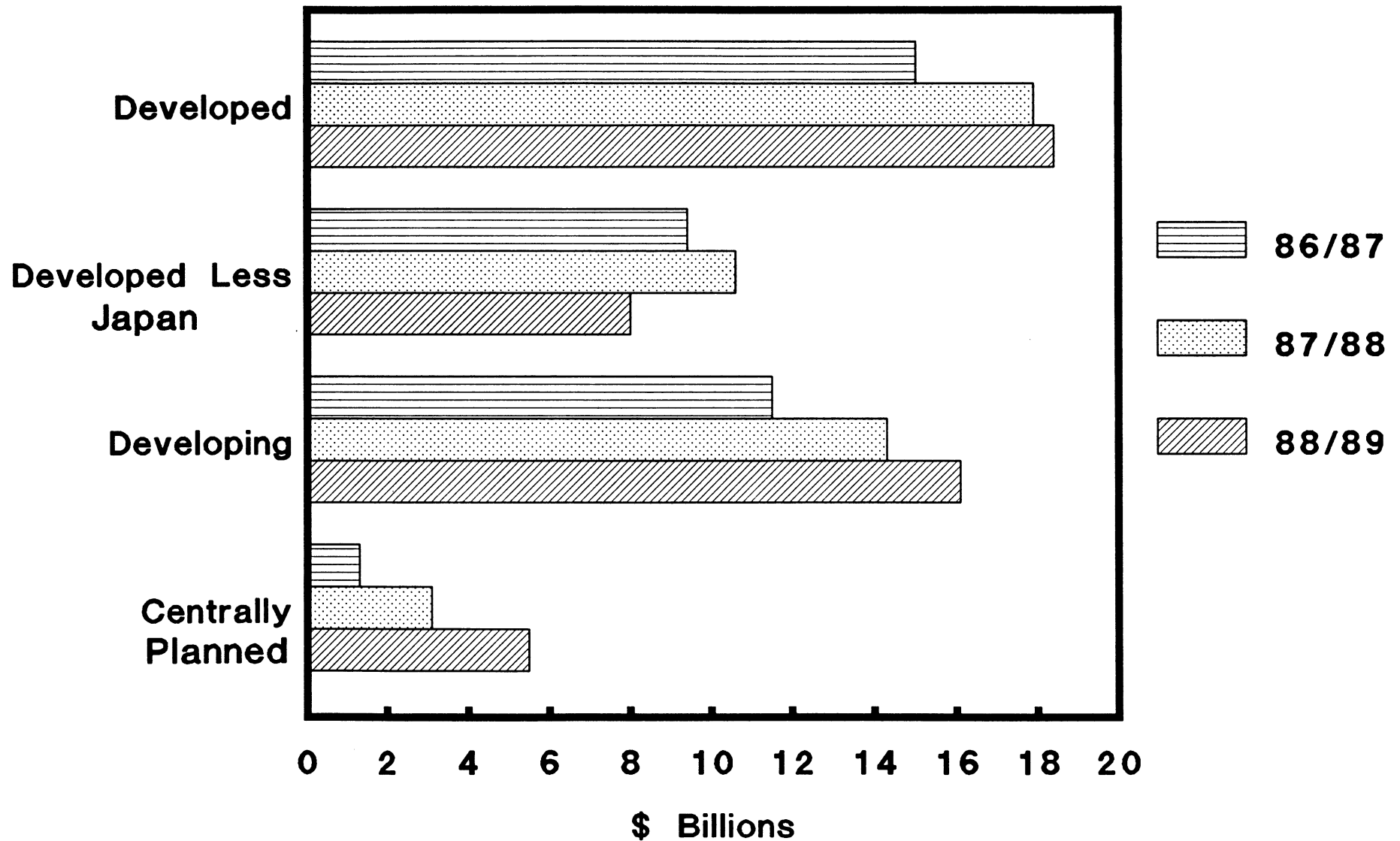
2. Factors Affecting Future Trade

- International Debt**
- Uncertainties in Centrally Planned Economies**
- Economic Growth**
- GATT**
- EEC Integration - 1992**

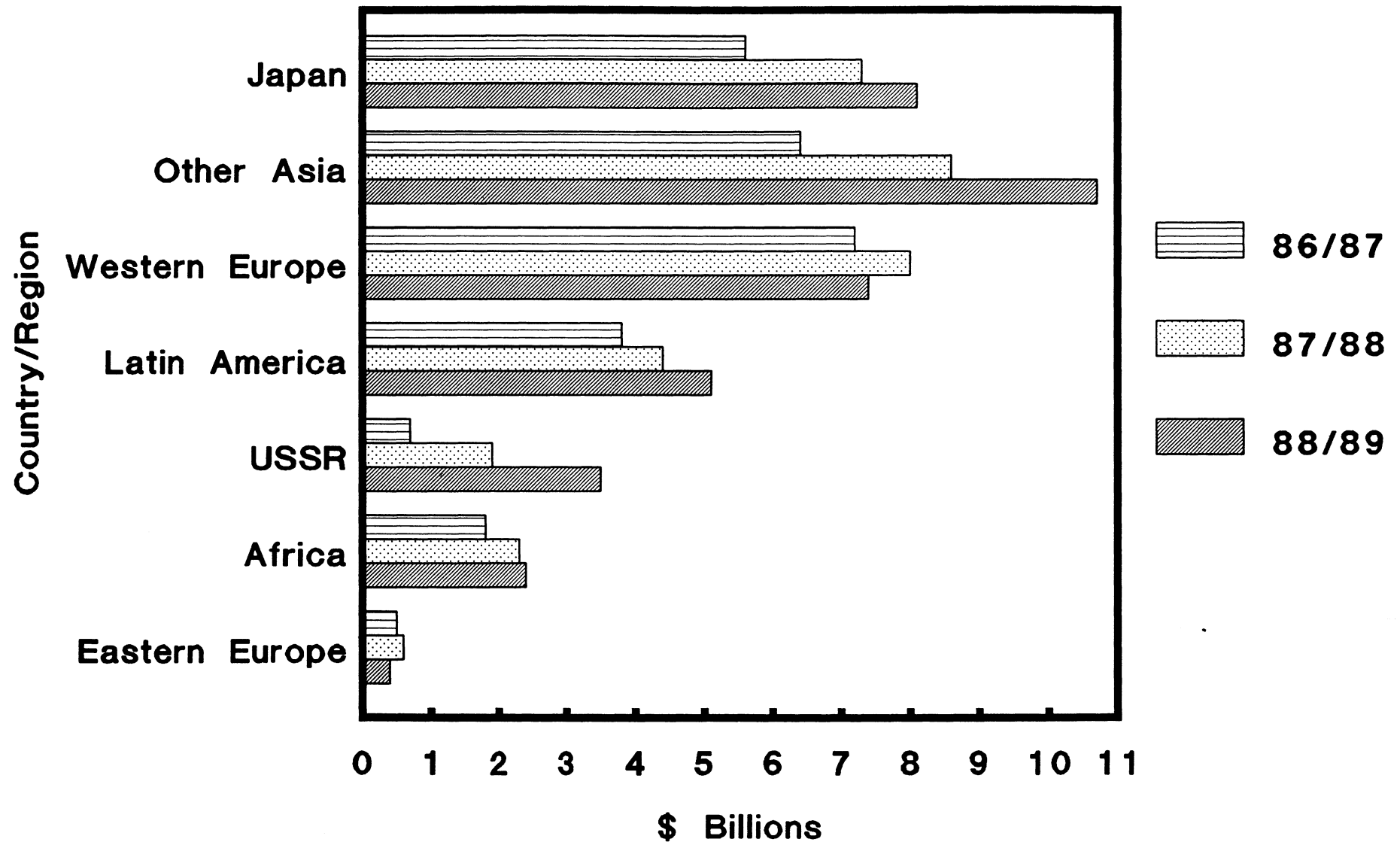
Total U.S. Agricultural Exports 1975/76 - 1988/89



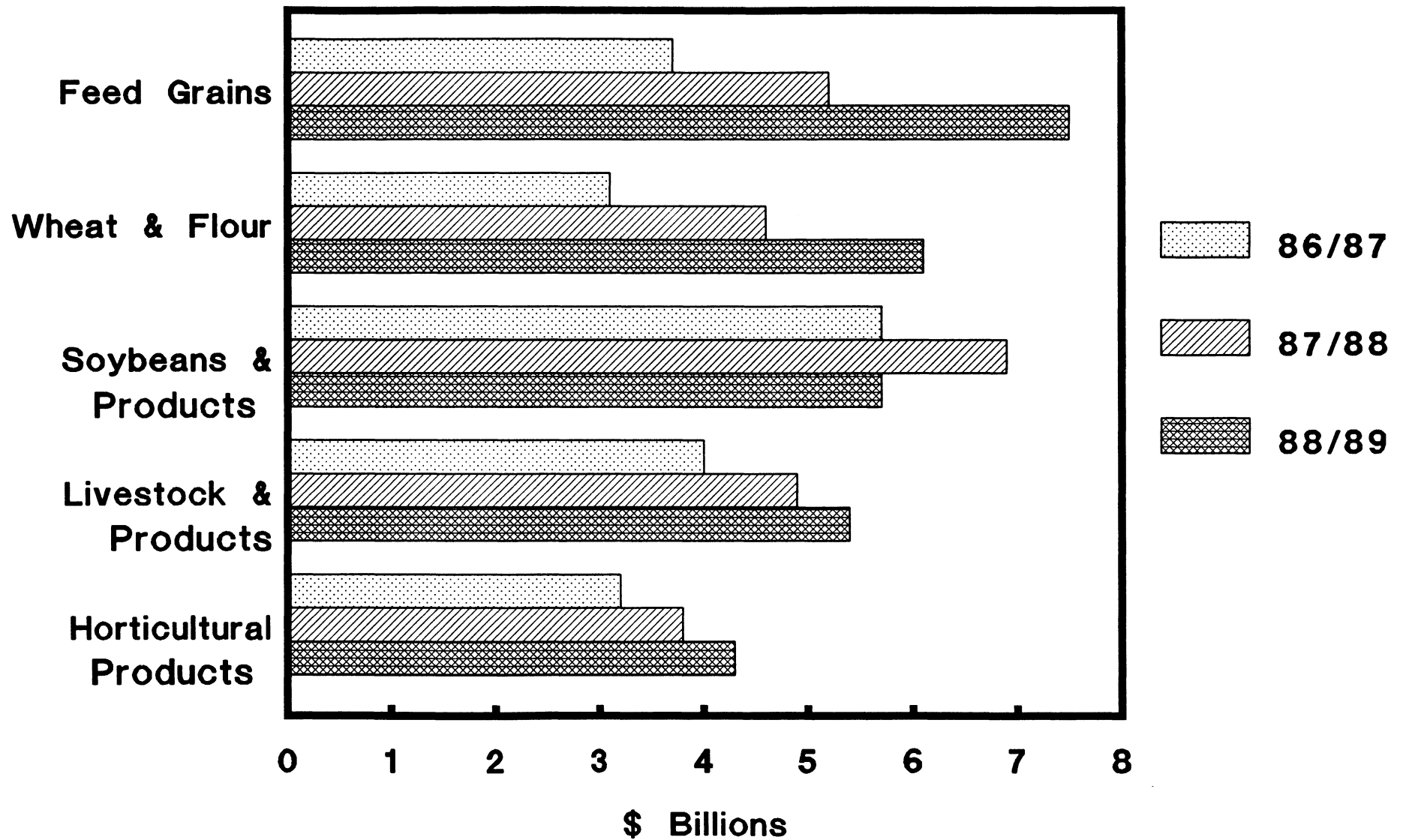
Developing Countries are New Growth Markets



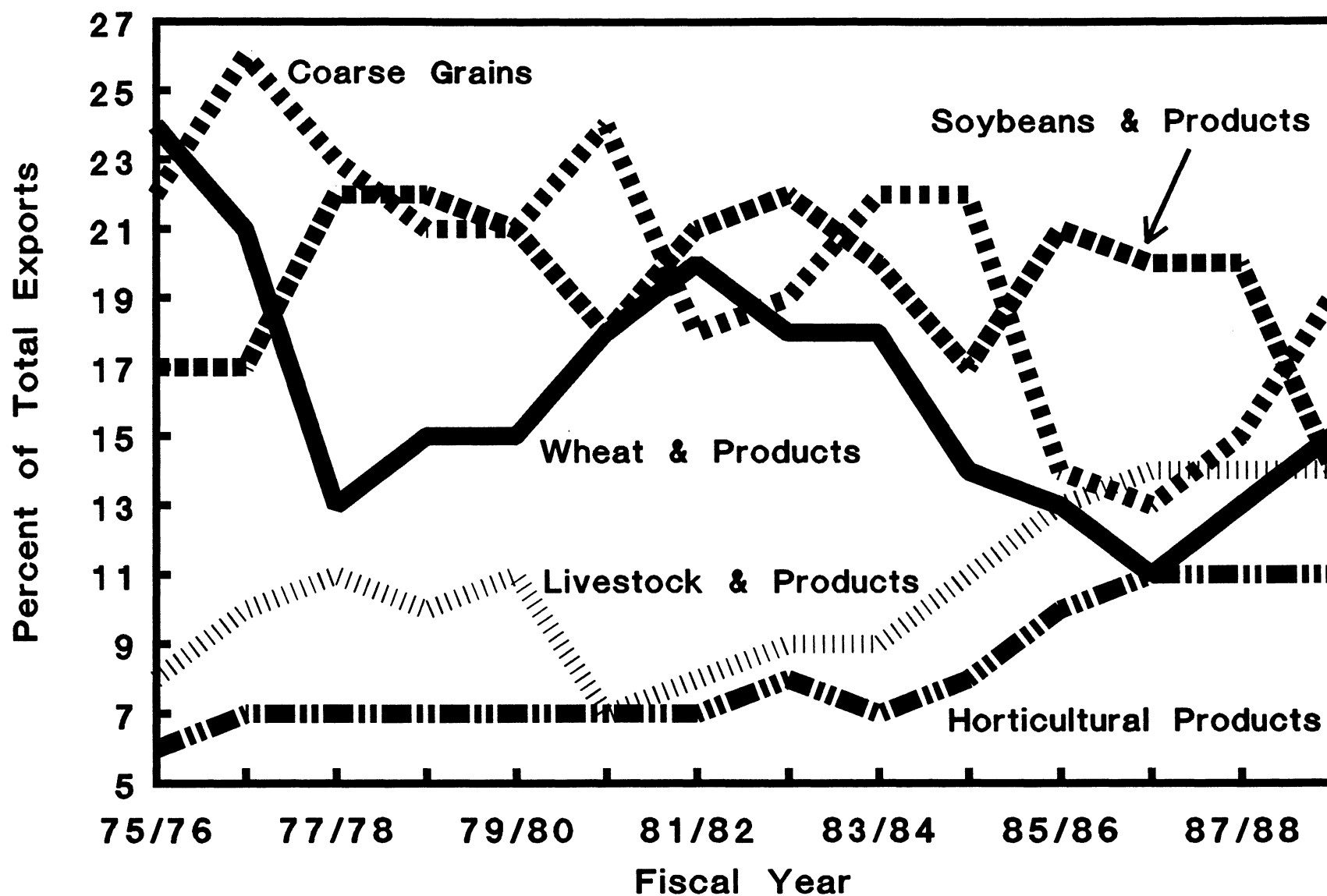
Major U.S. Export Markets



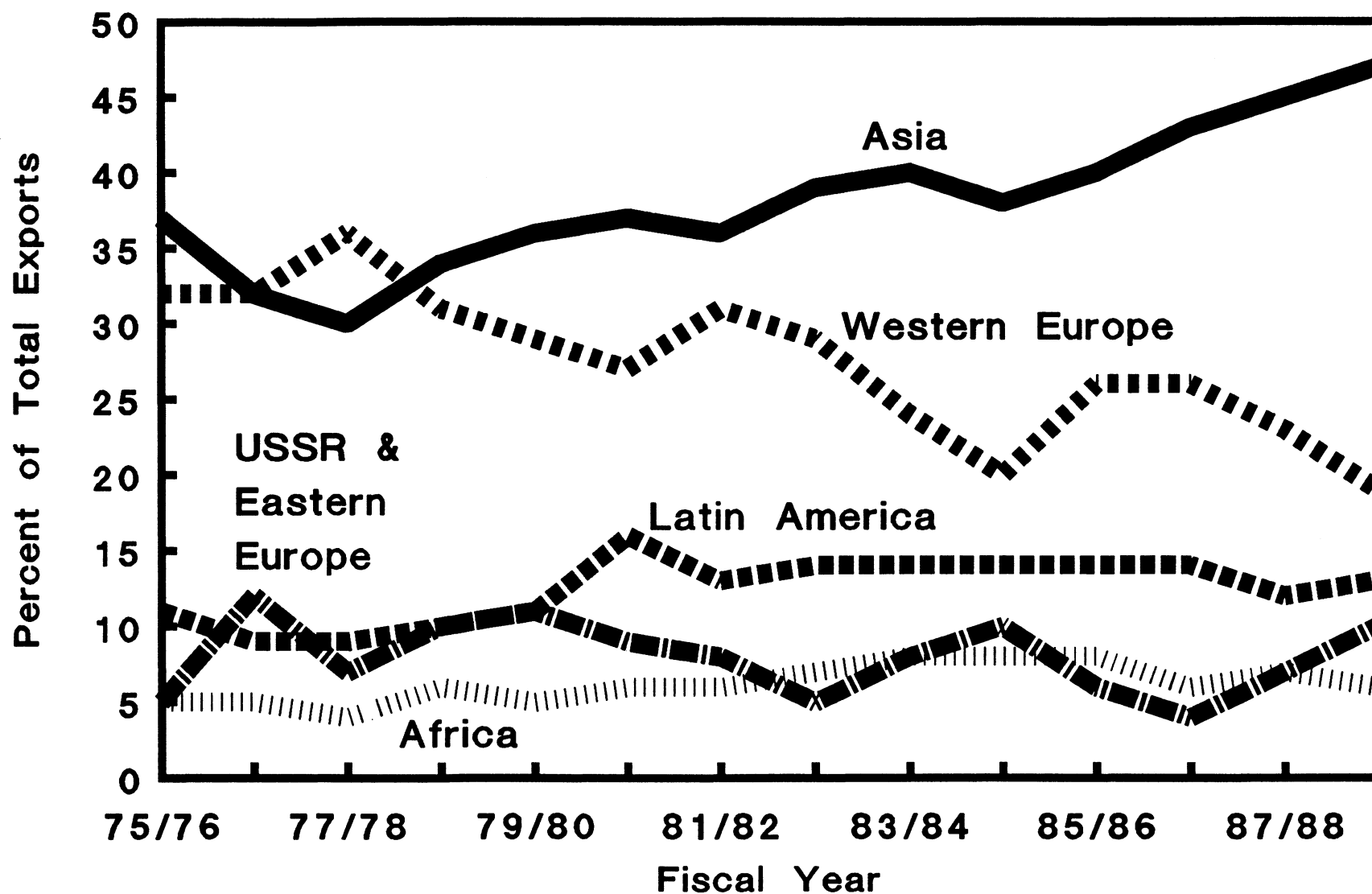
Value of Farm Exports in Fiscal 1987, 1988 and 1989



U.S. Agricultural Exports by Commodity Group, 1975/76 - 1988/89



U.S. Agricultural Exports by World Region, 1975/76 - 1988/89



MAJOR U.S. EXPORT MARKETS - 1988/89

	<u>Billion Dollars</u>	<u>% Total</u>
Asia	18.8	47
Japan	8.1	20
South Korea	2.5	6
Taiwan	1.6	4
China	1.5	4
Western Europe	7.4	18
Latin America	5.1	13
USSR	3.5	9
Africa	2.4	6
World	40.0	100

**Third world debt has cut U.S. farm
exports \$3 bil. annually since 1982**

External Debt - 1989

Billions of Dollars

All Developing Countries

1,100 - 1,200

Latin America

440

Brazil

124

Mexico

108

Argentina

57

Asia

280

Africa

225

Third world debt has cut U.S. farm exports \$3 bil. annually since 1982

- Exports increased to generate foreign exchange**
- Imports reduced to free foreign exchange for debt repayment**
- Investments reduced, limiting long run economic growth and domestic consumption**

Brady Plan - Three Pronged Effort

- Debt reduction and restructuring**
- New funds**
- Economic policy reforms -
stimulate growth**

GATT Induced Changed in Agricultural Policies

- 1. Dramatic shift from military confrontation and alliances to economic confrontation and alliances.**

**Canada - U.S. Free Trade Agreement
EEC economic integration - 1992
Japan - Pacific Rim**

- 2. GATT will be used by each to lower farm
program costs**

Some Likely GATT Outcomes

- 1. Modest phase down of agricultural supports and trade barriers**
- 2. Export subsidies as a bargaining chip; e.g. EEC does away with export subsidies – the U.S. accepts duties on soybeans and corn gluten feed in EEC market**
- 3. Sugar and dairy policies in U.S. most vulnerable to policy adjustments**

Uncertainties in Centrally Planned Economies

*"72 Years
on the Road
to Nowhere"*

Economic Systems

Feudalism

Capitalism – private ownership

Socialism – state ownership

Communism – communal ownership

Communist Philosophy - Equality

Dream

"From each according to abilities"

"To each according to needs"

Reality

From each as little as possible (Lazy)

To each as much as possible (Greedy)

Result

- Watchdog
 - Bureaucracy
 - Central Planning
 - Economic Failure

Uncertainties in Centrally Planned Economies

1. Restructuring of the Communist Economic System

- attempts to introduce free market forces
- problems with meeting demand in short run
- associated political instability

Uncertainties in Centrally Planned Economies

2. Potential Trade Opportunities are Substantial

- combined populations of 1.64 billion people (33% of world)
- living standards and development are low by comparison with similar market economies

China compared to Taiwan, Korea, Japan,

USSR and Eastern Europe compared to
Western Europe

Uncertainties in Centrally Planned Economies

3. Short Run Trade Opportunities Favorable

- USSR promises to boost living standards**
- Unmet meat demand estimated at 30-35%**
- China will have lower farm incentives, less foreign exchange, high priority for grain imports**